MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

PEM0024 – ESSENTIALS OF MICROECONOMICS / PPE0035 – PRINCIPLES OF MICROECONOMICS

(All sections / Groups)

17 October 2016
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** printed pages with:
   Section A: Forty (40) multiple choice questions (40 marks)
   Section B: Three (3) structured questions (60 marks)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Scarcity can best defined as a situation in which,
   A. there are no buyers willing to purchase what sellers have produced.
   B. there are not enough goods to satisfy all of the buyers' demand.
   C. resources are limited in quantity and can be used in different ways.
   D. there is not enough money to satisfy consumers' wants.

2. A good definition of equity would be
   A. everyone receiving the same income.
   B. fairness.
   C. efficiency.
   D. eliminating extreme affluence.

3. Miss J decides to spend an additional hour working overtime rather than watching a video with her friends. She earns RM8 for her hour's work. Her opportunity cost of working overtime is
   A. the RM8 she earns.
   B. the enjoyment she would have received had she watched the video.
   C. the RM8 minus enjoyment she would have received from watching the video.
   D. nothing, since she would have received less than RM8 of enjoyment from the video.

4. People make decisions at the margin by
   A. following tradition.
   B. comparing costs and benefits.
   C. experience.
   D. calculating the costs affected.

5. Which of the following statements about the circular-flow diagram is correct?
   A. One must imagine that the economy operates without money in order to make sense of the diagram.
   B. The diagram leaves out details that are not essential for understanding the economic transactions that occur between households and firms.
   C. The government cannot be excluded as a decision maker in a circular-flow diagram.
   D. All of the above are correct.

6. The law of demand states that quantity demanded of a goods increases as
   A. consumer income rises.
   B. the prices of other goods fall.
   C. the price of the good rises.
   D. the price of the good falls.

Continued...

7. In the market for personal computer, a rise in the price of computer software would cause,
   A. both the equilibrium price and quantity to rise.
   B. both the equilibrium price and quantity to fall.
   C. a decrease in the both equilibrium price and quantity.
   D. an increase in the both equilibrium price and quantity.

8. When consumers are willing to buy more than producers are willing to sell
   A. there is excess supply of the product in the market.
   B. there is excess demand for the product in the market.
   C. the market is in equilibrium.
   D. the demand curve will shift until the quantity supplied equals to the quantity demanded.

9. Which of the following changes would *not* shift the supply curve for a good or service?
   A. a change in technology.
   B. a change in the price of the good or service.
   C. a change in expectations about the future price of the good or service.
   D. a change in input prices.

10. If a technological advance makes it possible to produce banana at a lower cost,
   A. the demand for bananas increases.
   B. the demand for bananas decreases.
   C. the supply for bananas increases.
   D. the supply for bananas decreases.

11. The responsiveness of quantity demanded to a change in price is known as the
   A. price elasticity of supply.
   B. price elasticity of demand.
   C. cross elasticity of demand.
   D. income elasticity of demand.

12. Chocolate Chip ice cream would tend to have very elastic demand because
   A. other flavors of ice cream are almost perfect substitutes.
   B. the market is broadly defined.
   C. there are few substitutes.
   D. it must be eaten quickly.

13. If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price would result in a
   A. 4.0 percent decrease in the quantity demanded.
   B. 10 percent decrease in the quantity demanded.
   C. 40 percent decrease in the quantity demanded.
   D. 400 percent decrease in the quantity demanded.

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14. Elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the _____ the demand curve.
    A. steeper
    B. flatter
    C. shift to the right
    D. closer to the vertical axis

15. If the cross-price elasticity of demand is 1.25, then the two goods would be
    A. luxuries.
    B. substitutes.
    C. complements.
    D. normal goods.

16. Consider two goods, books and hamburgers. The slope of the consumer's budget constraint is measured by the
    A. consumer's income divided by the price of hamburgers.
    B. relative price of books and hamburgers.
    C. consumer's marginal rate of substitution
    D. number of books purchased divided by the number of hamburgers purchased.

17. Beer and pretzels are normal goods. When the price of beer falls, the substitution effect causes
    A. the consumer to feel richer, so the consumer buys more pretzels.
    B. the consumer to feel richer, so the consumer buys less pretzels.
    C. pretzels to be relatively more expensive, so the consumer buys less pretzels.
    D. pretzels to be relatively less expensive, so the consumer buys more pretzels.

18. A rational consumer will continue to consume two or more goods and services until
    A. they have enough of each.
    B. total utility begins to rise.
    C. the marginal utility per ringgit is the same for each good.
    D. the marginal utility is the same for each good consumed.

19. What do the income effect, the substitution effect, and diminishing marginal utility have in common?
    A. They all help explain the down sloping demand curve.
    B. They all help explain the upward sloping supply curve.
    C. They are all empirically measurable.
    D. All are required to explain the utility-maximizing position of consumer.

20. Ashley is currently consuming 10 hot dogs and 8 hamburgers per week. The last hot dog she consumed yielded 20 utils while the last hamburger she ate gave her 25 utils. If hot dogs cost RM2 and hamburgers cost RM2.50, is Ashley consuming the correct quantities of these two goods to be in consumer equilibrium?
    A. No, she should consume more hamburgers and fewer hot dogs B and D only
    B. No, she should consume more hot dogs and fewer hamburgers.
    C. Yes, so there is no need to change her eating habits.
    D. There is not enough information to answer the question.

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21. Consider the following information about a business Diane opened last year: price = RM4, quantity sold = 12, 000; implicit cost = RM14, 000; explicit cost = RM20, 000. What was Diane's economic profit?
    A. RM28, 000
    B. RM34, 000
    C. RM14, 000
    D. RM42, 000

22. The main difference between the short run and the long run is that
    A. firms earn losses in the long run.
    B. the long run always refers to a time period of one year or longer.
    C. in the long run, only one variable can be fixed.
    D. in the short run, one or more inputs are fixed.

23. At 100 units of output, total cost is RM20,000 and total variable cost is RM14,000. What does average fixed cost equal at 100 units?
    A. RM100
    B. RM60
    C. RM40
    D. There is not enough information to answer the question.

24. A rising marginal cost curve is a reflection of a
    A. rising marginal product curve..
    B. falling marginal product curve.
    C. falling average fixed cost curve.
    D. rising average variable cost curve.

25. When a firm earns zero economic profit, it has
    A. not covered all its explicit costs.
    B. not covered all its implicit costs.
    C. not earned enough to stay in business.
    D. definitely earned an accounting profit if implicit costs are positive.

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Answer questions 26-28 based Figure 1 a perfectly competitive firm in the short-run.

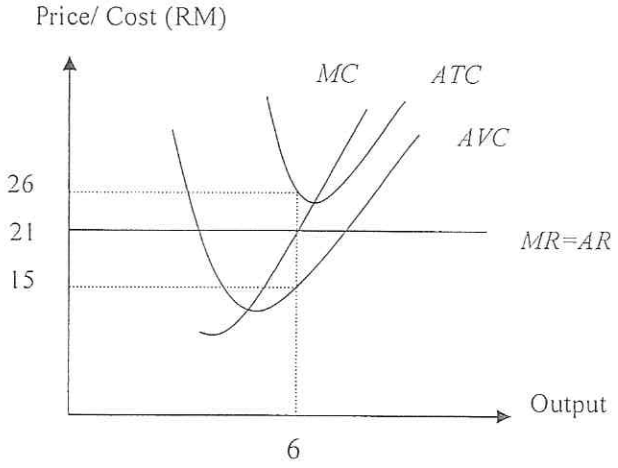

Figure 1

26. In equilibrium, what is the firm's average fixed cost?
    A. RM5
    B. RM11
    C. RM15
    D. RM21

27. If the firm continues to operate, the amount of losses incurred by the firm is
    A. RM11
    B. RM20
    C. RM30
    D. RM36

28. If the firm chooses to temporarily stop production, the amount of losses incurred by the firm is
    A. RM30
    B. RM66
    C. RM90
    D. RM156

29. A perfectly competitive firm will maximize profit when
    A. total exceeds total cost
    B. marginal revenue exceeds marginal costs
    C. price equals marginal costs
    D. price equals marginal benefit

30. A firm will shut down when
    A. it is not a earning a profit
    B. price does not equal marginal cost
    C. price is less than average cost
    D. revenue is less than variable costs

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31. A firm with some latitude to set its own price is called a price
    A. setter
    B. taker
    C. maximize
    D. chooser

32. Market power refers to firm's ability to
    A. set price
    B. lower costs
    C. produce output
    D. control sales

33. Charging different prices to different consumers for the same good is an example of
    A. monopolization
    B. increasing return to scale
    C. price discrimination
    D. perfect competition

34. If perfectly competition firm be monopoly and cost does not change, what are the implications?
    A. price and marginal cost will rise
    B. quantity decreases and the average cost rises
    C. average cost and total profit decrease
    D. price, quantity, and total profit increase

35. The following information are the costs and revenue for a monopoly firm at equilibrium.

    Average price = RM20
    Marginal revenue = marginal cost = average cost = RM15

    If the amount of the profit is RM500, what is the output produced?
    A. 50 unit
    B. 100 unit
    C. 150 unit
    D. 200 unit

36. Which of the following is a close example of imperfect competition?
    A. CIMB Bank
    B. Petronas
    C. Perodua
    D. all of above

37. The demand curve for a monopolistic firm is
    A. downward sloping
    B. horizontal
    C. vertical
    D. upward sloping

Continued...

38. A monopolistic marginal revenue
    A. is above price
    B. is horizontal
    C. can be derived from the demand curve
    D. all of the above

39. If the marginal cost exceeds the marginal revenue, the firm that wants to maximize must possess
    A. added production
    B. reduce production
    C. do not make any changes to the quantity
    D. reduce price sales

40. According to the kinked demand curve theory,
    A. if a firm lowers its price, other firms will not follow suit.
    B. if a firm raises its price, other firms will follow suit.
    C. the portion of a firm's demand curve above current price is highly elastic.
    D. the portion of a firm's demand curve below current price is highly elastic.

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1 (20 marks)

(a) Briefly explain the four (4) properties of indifference curves. (8 marks)

(b) Mrs. Lee buys loaves of bread and quarts of milk each week at prices of RM1 and RM0.80, respectively. At present, she is buying the two products in the amounts that the marginal utilities from the last units purchased of the two products are 80 and 70 utils, respectively. Is she buying the utility maximizing combination of bread and milk? If not, how should she reallocate her expenditures between the two goods? (6 marks)

(c) You are choosing between two goods, X and Y, and your marginal utility from each is as below. Suppose that your income is RM9 and the prices of X and Y are RM2 and RM1, respectively.

Units of X	MU_X	Units of Y	MU_y
1	10	1	8
2	8	2	7
3	6	3	6
4	4	4	5
5	3	5	4
6	2	6	3

i) What quantities of each will you purchase in maximizing utility? (2 marks)

Continued...

ii) How much total utility will you realize? (2 marks)

iii) Assume that, other things remain unchanged, the price of X falls to $1. What quantities of X and Y will you purchase now? (2 marks)

Question 2 (20 marks)

(a) Regina is an engineer and she earns RM28,000 a year. Regina decides to quit her job and opens a bakery. She spends RM2000 on eggs, flavours and creams, RM4000 on flours and RM5000 on bakery rental. She sold 1000 cakes at price of RM25 each.

i) What is Regina's total revenue? (2 marks)

ii) Calculate Regina's accounting and economic profits. (6 marks)

(b) Using an appropriate diagram, explain the shape of the long-run average total cost (LRATC) curve. (12 marks)

Question 3 (20 marks)

(a) You own and operate a fruit stand. Your demand curve is given by

P=0.5-0.002Q

where P is in dollars and Q is in pounds of fruit

Marginal cost curve is MC=0.006Q
Marginal revenue curve is MR=0.5-0.004Q
Fixed costs equal to $10

i) Calculate your profit maximizing quantity. (5 marks)
ii) Calculate your profit maximizing price. (5 marks)

(b) **Table 1** below shows the price and the total cost of a monopolistically competitive firm at various levels of output

Output	0	1	2	3	4	5	6
Price (RM)	50	45	40	35	30	25	20
Total cost (RM)	30	35	40	45	50	55	60

Table 1

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i) Calculate the total revenue, marginal revenue, average cost, and marginal cost the firm at various levels of output. (5 marks)

ii) Based on your answer in (i), sketch a diagram to show the equilibrium price and quantity. (5 marks)

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